



INDEPENDENT ACCOUNTANTS' REPORT

Central Illinois Light Company
300 Liberty Street
Peoria, IL 61602

Attention of Mr. Terry Fox, Controller:

Introduction

This report is in response to your request of November 8, 2001, to assist you in evaluating the appropriate application of accounting principles generally accepted in the United States of America ("generally accepted accounting principles") to the proposed transfer of the electric generating assets and liabilities relating to your Duck Creek, Edwards and Sterling plants ("generation assets and liabilities") to a newly formed, wholly-owned subsidiary of Central Illinois Light Company ("CILCO"), to be named Central Illinois Generation, Inc. ("Generation") (the "transfer"). Our engagement to report on the application of generally accepted accounting principles to the transfer has been conducted in accordance with standards established by the American Institute of Certified Public Accountants.

This report is solely for the use of the management and Boards of Directors of Central Illinois Light Company and the Illinois Commerce Commission.

Description of Transaction

The following facts, circumstances, and assumptions relevant to the transfer, as provided to us by the management of CILCO, are contained in their representations to us dated as of the date of this report (hereinafter referred to as "Management's Representations"), and are an integral part of this report. Management's conclusions with respect to such relevant facts, circumstances, and assumptions are as follows:

CILCO is proposing to transfer its generation assets and liabilities to Generation, which will be established pursuant to Section 16-111(g) of the Illinois Public Utilities Act. The value of the transaction is to be the net book value of the generation assets and liabilities as of the date of the transfer. The generation assets include, but are not limited to, the land on which the Duck Creek and Edwards generation units are located and the equipment and other tangible personal property used in the operation of the electric generation assets. The generation liabilities include, but are not limited to, accounts payable and accrued pension and other post-employment benefits. In connection with the transfer, CILCO and Generation intend to enter into several agreements including, but not limited to, a power supply agreement whereby Generation will supply energy to CILCO until December 31, 2004, subject to FERC approval.

Appropriate Accounting Principles

The American Institute of Certified Public Accountants Accounting Interpretation No. 39 of Accounting Principles Board Opinion No. 16, "Transfers and Exchanges Between Companies Under Common Control" (AIN-APB 16 #39) provides guidance on the appropriate accounting treatment for transfers among companies under common control. As discussed in AIN-APB 16 #39, generally accepted accounting principles require that transfers of assets and liabilities between companies under common control or between a parent and its subsidiaries be valued at historical cost in the separate statements of each entity that is a party to the transfer. Further, as discussed in Emerging Issues Task Force Issue No. 85-21, "Changes of Ownership Resulting in a New Basis of Accounting" the staff of the Securities and Exchange Commission expressed its concurrence with the accounting prescribed in AIN-APB 16 #39 by stating that carrying over historical cost to record, in the separate financial statements of each entity, transfers between companies under common control or between a parent and its subsidiary run primarily to transfers of net assets (as in a business combination) or long-lived assets. After considering the facts, circumstances, assumptions, and conclusions set forth herein and in Management's Representations, we believe the basis of accounting for the transfer described above to be in accordance with generally accepted accounting principles.

Concluding Comments

The ultimate responsibility for the decision on the appropriate application of generally accepted accounting principles for an actual transaction rests with you as the preparers of financial statements. Our judgment on the appropriate application of generally accepted accounting principles for the described transfer is based solely on the facts, circumstances, and assumptions provided to us as described herein and in Management's Representations; should the facts, circumstances, or assumptions differ from those described, our conclusions might change.

Deloitte & Touche LLP

November 16, 2001